Section 272 Audit Report	AT&T Management Response
<u>Objective V/VI, Procedure 5</u> Using the sample of 80 agreements selected in Procedure 4.b. above, plus the four agreements replaced in Procedure 4.b. above, documented, in the working papers, the dates when the 84 agreements were signed and/or when the services were first rendered (whichever took place first) and the dates of posting on the Internet. Noted that twelve (14.3%) of the 84 agreements tested were posted to the Internet site, www.sbc.com, more than ten days after their effective date. These 12 instances consisted of two different agreements. • Noted one agreement, from SBCLD to SBC Indiana, SBC Ohio and SBC Nevada for Interexchange Carrier Services, Internal, Amendment 7 (this same agreement is posted for each SBC BOC and was tested for three different Internet postings), and one agreement, from SBCLD to SBC Indiana, SBC Illinois and SBC Wisconsin for Interexchange Carrier Services, Internal, Table 4 (this same agreement is posted for each SBC BOC and was tested for three different Internet postings), were effective on July 29, 2004 and posted on August 9, 2004, or one day late. SBCLD represented that the late postings were due to the ninth and tenth calendar days after the effective date falling on a weekend. • Noted one agreement from SBCLD to SBC Illinois, SBC Indiana, SBC Michigan, SBC Ohio, SBC Southwest and SBC Wisconsin for Local Exchange Carrier Calling Card Agreement (this same agreement is posted for each SBC BOC and was tested for six different Internet postings) was effective on January 9, 2004 and posted on January 22, 2004, or three days late. SBCLD represented that this agreement was	*The purpose of this procedure is to determine whether unaffiliated carriers are adequately notified of all transactions between the BOC and its section 272 affiliate so they can request the same services at the same prices and on the same terms and conditions.* As a result of AT&T's effort to continually improve its processes and procedures to ensure timely posting of affiliate agreements, the audit revealed only two instances of late postings: one agreement that covered six separate BOC contracts that were posted one day late and one agreement that covered six separate BOC contracts that were posted four days late.[1] Because both of these agreements included six separate BOC affiliates, six separate Internet postings were required – resulting in the audit finding twelve late postings rather than just two. Regarding the first agreement, SBCLD signed Amendment 7 to the Interexchange Carrier Services Internal Affiliate Agreement on Thursday, 7/29/04. The tenth business day after signing was 8/8/04, a Sunday. In accordance with then-existing Internet posting procedures, which required a handoff from SBCLD Regulatory to on-line AT&T IT personnel, the target Internet posting deadline was set for Friday, 8/6/04. However, the target deadline was missed and the Internet posting could not be performed until the next business day, which was the following Monday – resulting in the posting taking place eleven days after its signing. Since this incident, SBCLD has initiated a process whereby affiliate agreements are now posted to the Internet directly by SBCLD Regulatory without requiring assistance from on-line AT&T IT personnel. Regarding the second agreement, SBCLD signed the Service Agreement No. 03031715 (the LEC Calling Card affiliate agreement) on 1/8/04. This affiliate agreement was executed outside of the normal affiliate agreement approval process established by SBCLD. As a result, SBCLD Regulatory, the

[1] Affiliate agreements initiated by SBC Long Distance are often entered into with several or all BOC affiliates in one document. In order to make agreements easier to locate on the Internet, SBCLD posts the executed agreement separately for each BOC affiliate included in the agreement.

executed outside of the established affiliate agreement approval process for SBCLD and SBCLD posted the agreement within one day of SBCLD's regulatory group becoming aware of it.	organization responsible for posting affiliate agreements between SBCLD and the BOCs/ILECs, was not aware of the executed affiliate agreement until 1/21/04, thirteen days after the effective date of the agreement. The agreement was posted to the Internet on 1/22/04 (four days late). Once the agreement was posted, SBCLD Regulatory met with the departments that executed the agreement, reviewed the established procedures in place for approving affiliate agreements with BOCs/ILECs, and gained concurrence that this procedure would be followed going forward.

<u>Objective VII, Procedure 7.a.</u>
Using a random number generator, selected the following call centers from the list obtained above: six Consumer call centers located in 1) Reno, Nevada; 2) Pasadena, California; 3) San Jose, California; 4) Arlington Heights, Illinois; 5) Oakbrook, Illinois; and 6) Columbus, Ohio; and four Business call centers located in 1) Torrence, California, 2) Brecksville, Ohio, 3) Waskesha, Wisconsin and 4) Saginaw. Michigan listened in on a total of 100 calls from callers requesting to establish new local telephone service or to move an existing local telephone service. Noted the following:
 	
• For 84 calls, the sales representative informed the customer of other providers of intraLATA and/or interLATA services and informed the customer of their right to make the selection.
 	
• For the following 16 calls, the SBC BOC representative marketed SBCLD long distance service but did not inform the customer of their right to choose long distance providers.
  ▪ One call in the Reno, Nevada call center
  ▪ One call in the San Jose, California call center
  ▪ Three calls in the Arlington Height, Illinois call center
  ▪ One call in the Oakbrook, Illinois, call center
	The purpose of this procedure is to determine whether AT&T is appropriately providing the equal access (EA) disclosure to inbound callers seeking to establish new service (i.e., notifying new customers that they have a choice of long distance providers when jointly marketing AT&T's long distance service).
	
	Since the last AT&T section 272 biennial audit, AT&T has largely restructured its business offices (i.e., call centers) from the traditional model of specialized call centers that primarily handle only certain types of calls (e.g., new connects, billing inquiries, change orders, etc.) to a large-teamed model in which the call centers handle all types of calls. As a result, AT&T could not arrange for the auditors to listen exclusively to inbound calls to establish new service – which are the only calls included within the scope of the testing. Instead, the auditors were required to listen to and distinguish between inbound calls to establish new service and numerous other types of calls. Additionally, AT&T did not have the capability at the time to record and retain calls beyond two weeks, if at all, due to limitations in AT&T's systems and other constraints such as storage capacity. Thus, AT&T has no way to independently verify that the calls observed by the auditors were in fact inbound calls to establish new services and appropriately included in the scope of testing.
	
	That being said, AT&T is strongly committed to ensuring compliance with the EA disclosure obligation. Service representatives are required to provide the EA notification to all customers making inbound calls to order new service.

Section 272 Audit Report	AT&T Management Response
▪ Two calls in the Columbus, Ohio call center ▪ One call in the Torrence, California call center ▪ Three calls in the Brecksville, Ohio call center ▪ Three calls in the Waukesha, Wisconsin call center ▪ One call in the Saginaw, Michigan call center	To emphasize the importance of providing the EA disclosure, EA notification verbiage is included in the service representative scripts and/or the service representatives receive on-screen reminders during the order taking process to provide the EA notification at the point where the service representative begins to market SBCLD's long distance service. AT&T also provides mandatory training to all service representatives that includes the requirement to provide the EA notification. Additionally, AT&T call center managers continually monitor and assess the performance of service representatives including their adherence to the EA notification requirement.
<u>Objective VIII, Procedure 5</u> Using the reported data (i.e., by state, by service, by performance measure, by month) in Procedure 4 above, randomly selected the months of November 2004, February 2005 and May 2005. For the selected months, applied the business rules to the underlying raw data and compared the results to those tracked and maintained by the SBC BOCs for that SC. Application of the business rules considered the definitions, exclusions, calculations and reporting structure included in the business rules. All differences noted for SCs 1, 2, 3, 4, 5, 6 and 7 are included in Attachment A-4.	*The purpose of this procedure is to recalculate the AT&T 272(e)(1) performance results and compare to the reported results and note any differences.* AT&T tracks and maintains 272(e)(1) performance results on a monthly basis. Although each of the AT&T regions use different systems and processes for tracking and maintaining performance data, the results are reported accurately and consistently for each state and measure. The differences between the performance results originally calculated by AT&T and those recalculated by the auditors are primarily due to differences in the documentation of procedures for pulling the data and the rounding of calculations during the preparation of the results. In the process of updating the performance results process documentation late in the audit engagement period, AT&T discovered procedural differences within its regions. The documentation initially provided to the auditors detailing the process for pulling the data to calculate performance results therefore was not as complete and current as would be needed for a more accurate recalculation. Even considering these differences, the results of the auditors only exhibited minor inconsistencies. Additionally, there are instances where AT&T may round certain data during intermediate steps in the preparation and presentation of the performance results, which may account for minor variations in some recalculations.

	The following describes some of the variances in the auditor recalculations: <u>SC 1 and 2 (Provisioning)</u> The instructions provided to the auditors to recalculate these measures included identifying the correct types of special access service based on specific coding that appears in one of the characters of the circuit ID contained in the inventory records. This method of identifying access services in the circuit ID is the AT&T enterprise-wide plan being implemented. The actual process currently being used in the Midwest includes some variation in the method of circuit identification. Thus, the recalculation process resulted in understatement of the volumes of service orders for SC1 and SC2 in these regions, which in turn resulted in the recalculation differences in the Midwest. Excluding the Midwest states, the differences were all less than one half percent. Rounding differences likely account for the small differences. <u>SC3 (Firm Order Commitment or FOC)</u> There were only seven differences out of the 324 recalculations performed by the auditors for SC3 which represents a mere 2.2 percent of the total. These seven differences were all off by only one day. Rounding differences likely account for the small differences. <u>SC5 and SC7 (Maintenance)</u> The recalculation differences for SC5 and SC7 were merely fractional amounts likely due to rounding differences. <u>SC 4 (PIC/LPIC Change Requests)</u> There were only two differences out of the 216 recalculations performed by the auditors for SC 4 which represents a mere 0.9 percent of the total. These two differences resulted from an error in AT&T's formula, which has since been corrected.

	<u>SC 6 (PIC/LPIC Repair Requests)</u> The ASKME system[2] uses a "real time" lookup table against the CIC code to determine the customers' PIC and LPIC. Customers frequently change their PIC/LPIC resulting in time lags between the ASKME PIC/LPIC data and the data originally used by AT&T to calculate the measure. The historical PIC/LPIC in place at the time of the repair report was not used by the auditors in performing the recalculation. For the previous audits, the historical detail sent to the auditors included the PIC/LPIC in place at the time. Consequently, the recalculation in this audit resulted in numerous differences. Thus, the time lags were the primary factor accounting for the recalculation differences. AT&T notes that the primary and express purpose for which its section 272(e)(1) process was established was to provide unaffiliated carriers with the ability to request the performance data associated with the level of service AT&T provides to itself (both the categories of "section 272 affiliates" and the "BOC and other affiliates"). As such, unaffiliated carriers would be able to determine whether AT&T is discriminating against them by providing better service intervals to itself. During the engagement period, no unaffiliated carriers requested AT&T's section 272(e)(1) performance data.

[2] The standard system used by AT&T today – and that was used by the auditors to obtain the data for the recalculations – is called ASKME (Acquisition of Statistical Knowledge Made Easy). This is now AT&T's central data storage system that houses all the "source" data from the various systems that generate the raw data. However, AT&T started using this system only in 2003; thus, the raw data used by AT&T to calculate the performance results in previous years was obtained directly from the various "source" systems rather than ASKME.

C

Appendix C

JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR
SBC COMMUNICATIONS INC.

GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED

FOR THE PERIOD JULY 10, 2003 THROUGH JULY 9, 2005

FINAL PROCEDURES
November 21, 2005

JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR

SBC COMMUNICATIONS INC.

GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
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OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED

FOR THE PERIOD JULY 10, 2003 THROUGH JULY 9, 2005

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SBC COMMUNICATIONS INC.
BIENNIAL ENGAGEMENT PROCESS

INTRODUCTION

Background

1. Section 272(a) of the Communications Act of 1934, as amended (the Act), requires that a Bell Operating Company (BOC) set up one or more separate affiliates before engaging in manufacturing activities, in-region interLATA services, and interLATA information services. For interLATA information services, this requirement expired on February 8, 2000 in accordance with the Act. Before engaging in the provision of in-region interLATA services, a BOC or an affiliate of the BOC must meet the requirements of section 271 of the Act and must receive approval by the Federal Communications Commission (FCC). A BOC that is required to operate a separate affiliate under section 272 must obtain and pay for a joint Federal/State audit every two years.[1]

2. The Commission adopted rules to implement the section 272(d) biennial audit requirement. *See Accounting Safeguards Order* at paras. 197-205; *see also* 47 C.F.R. § 53.209-.213. The Commission's Part 53 rules and accompanying orders govern the conduct of the section 272(d) biennial audit. As stated in the Commission's Part 53 rules, the purpose of the section 272(d) biennial audit is to determine whether the BOC and its section 272 affiliates have operated in accordance with the accounting and non-accounting safeguards required by section 272 of the Act and the Commissions rules. 47 C.F.R. § 53.209(b) (listing the specified compliance requirements of the section 272(d) biennial audit). In addition to specifying the audit requirements, the Commission's rules provide for the establishment of a Federal/State joint audit team that is authorized to oversee the conduct of the audit from the planning stage to its completion and to "direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements [in 47 C.F.R. § 53.209(b)]." 47 C.F.R. § 53.209(d). Although the section 272(d) biennial audit is to be conducted by an independent auditor, the Federal/State joint audit team is also responsible for ensuring that the audit meets the objectives stated in the Commission's rules and orders. 47 C.F.R. §§ 53.209(d) (stating that the Federal/State joint audit team is responsible for "overseeing the planning of the audit"); 53.211(b) (requiring the Federal/State joint audit team to review the audit requirements and authorizing the Federal/State joint audit team to modify the audit program); 53.211(c) (authorizing the Federal/State joint audit team to approve the audit requirements and program); 53.211(d). In accordance with Statements on Standards For Attestation Engagements, 10, Paragraph 1.03: "When a practitioner undertakes an attest engagement for the benefit of a government body or

[1] 47 U.S.C. § 272(d).

agency and agrees to follow specified government standards, guides, procedures, statutes, rules and regulations, the practitioner is obliged to follow those governmental requirements as well as applicable attestation standards."

3. Working pursuant to delegated authority, the Federal/State joint audit team elected to use the Agreed-Upon Procedures (AUP) form of attestation engagement to meet the objectives specified in the Commission's rules, *i.e.*, to determine whether the BOC and its section 272 affiliates complied with the relevant accounting and non-accounting safeguards. The American Institute of Certified Public Accountants (AICPA) defines an AUP engagement as "one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter."[2] For the purposes of planning this AUP engagement and developing the appropriate audit procedures, the "specified parties" consist of the Federal/State joint audit team ("Oversight Team" or "Joint Oversight Team") and the company responsible for obtaining and paying for the section 272(d) biennial audits (*i.e.*, SBC Communications Inc. (SBC)). The Oversight Team will be comprised of members from the FCC and members of the state commissions who have jurisdiction over SBC in their respective states[3] and who have chosen to participate in the biennial audit and have either signed a Protective Agreement or the State commission has promulgated a Protective Order.

The Oversight Team is responsible for reviewing the conduct of the engagement and, after consultation with SBC, for directing the practitioner[4] to take such action as the team finds necessary to achieve each audit objective. Consistent with section 53.209(d) of the Commission's rules, the Oversight Team may direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements of section 53.209(b) as reflected in letters or orders issued by the Bureau staff and served on SBC. If SBC disagrees with the Oversight Team's directions, the Oversight Team will issue a written decision describing the specific directions to which SBC objects. SBC may file a petition for reconsideration of that decision with the Enforcement Bureau pursuant to section 1.106 of the Commission's rules. The specified parties agree that the independent auditor shall implement the directions of the Oversight Team ten business days after such decision is issued if SBC has not filed a petition for reconsideration. The specified parties further agree that if the Enforcement Bureau denies any part of SBC's petition for reconsideration, the independent auditor shall immediately implement the directions of the Enforcement Bureau's decision.

SBC may also file an application for review of the Enforcement Bureau's decision pursuant to section 1.115 of the Commission's rules. The independent auditor shall nonetheless implement the Enforcement Bureau's decision even if SBC files an application for

[2] Statement on Standards for Attestation Engagements (SSAE) 10, paragraph 2.03, published by the American Institute of Certified Public Accountants.

[3] Arkansas, Kansas, Missouri, Oklahoma, Texas, California, Nevada, Illinois, Indiana, Michigan, Ohio, Wisconsin and Connecticut.

[4] The terms 'practitioner,' 'independent auditor,' and 'independent accounting firm' are used interchangeably in these General Standard Procedures.

review of that decision. Should the Commission grant any part of SBC's application for review, the independent auditor shall modify its procedures accordingly. In the event that SBC's application for review has not been acted on by the date of the filing of the final biennial audit report, the results of any such affected procedures shall be omitted from the final biennial audit report until such time as the Commission issues a final decision; however, the issues under review shall be disclosed in the final biennial audit report as matters subject to an application for review with the Commission that have not yet been acted upon.

The text below provides the requirements for the engagement as listed in section 53.209(b) of the FCC rules and indicates the nature, timing, and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality, therefore, the practitioner must report all results in the form of findings from application of the agreed upon procedures.

COMPLIANCE REQUIREMENTS

4. The requirements that will be covered in the biennial audit are intended to achieve the purpose of the biennial audit as defined in section 272(d), and are contained in 47 U.S.C. section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. section 53.209(b) of the FCC rules and regulations. Below is a listing of those requirements:

Structural Requirements

The separate affiliate required under section 272 of the Act:

I. Shall operate independently from the Bell operating company;

II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;

III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;

IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company.

Accounting Requirements

The separate affiliate required under section 272 of the Act:

V. Shall conduct all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

Nondiscrimination Requirements

The Bell operating company:

VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;

VIII. Shall fulfill any requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;

IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;

X. Shall charge its separate affiliate under section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;

XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

Related FCC Dockets

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on reconsideration. Below is a list of FCC orders related to the above requirements:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996. Other releases under this docket were issued on February 19, 1997; June 24, 1997; June 10, 1998; September 3, 1999; April 27, 2001.

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and*

Order; Released December 24, 1996. Another release under this docket was issued on June 30, 1999.

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (First Interconnection Order); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (Second Interconnection Order).

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998.

CC Docket No. 98-121, In the Matter of Application of BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; *Memorandum Opinion and Order*; Released October 13, 1998.

CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review - Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking;* Released November 5, 2001.

WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

WC Docket No. 03-228, In the Matter of Section 272(b)(1)'s "Operate Independently" Requirement for Section 272 Affiliates; *Report and Order*; Released March 17, 2004.

6. In addition, the following pending FCC dockets may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscriminatory Requirements:

Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of sections 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services.

Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance.

The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

ENGAGEMENT PLAN

Engagement Period

7. The AUP engagement shall cover 24 months of operations beginning July 10, 2003 and ending July 9, 2005 for all states where SBC has obtained authority to provide in-region interLATA services. For all of the SBC section 272 affiliates the engagement will also cover all assets added since the last audit. The biennial audit will cover all services for which a separate affiliate is required under section 272(a)(2) and includes all BOCs within the Region and ILECs providing or receiving services to/from the section 272 affiliates. The Audit Test Period will be from July 10, 2003 through March 31, 2005, except where noted. For purposes of gathering data for the performance of the procedures, the Engagement Period will be July 10, 2003 through July 9, 2005. Unless otherwise noted for a given procedure, data shall be gathered for the entire engagement period. Where a procedure specifies use of the Audit Test Period, the period July 10, 2003 through March 31, 2005 will be used.

Sunset Provisions

8. Section 272(f)(1) of the Communications Act provides that section 272 (other than subsection (e)) shall cease to apply to the interLATA telecommunications services of a BOC three years after the date the BOC receives authorization to provide interLATA telecommunications services under section 271(d), unless the Commission extends such three-year period by rule or order. Thus, section 272(d) which concerns the biennial audit sunsets three years after section 271 authorization. The Commission has determined that such "sunset" shall apply on a state-by-state basis according to the date that each state receives section 271 authorization.[5] Therefore, as each state within the SBC region sunsets, that state may be excluded from further section 272 audits as of the date of sunset as recognized by the FCC. However, if a BOC in a given state has affiliate transactions with any section 272 affiliate, those transactions will continue to be part of the audit because of the continuation of the Commission's rules governing affiliate transactions in Part 32.

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[5] WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

Accordingly, operations in the following states may be excluded from this engagement as of the effective date of the related FCC public notice:

State	Sunset Effective Date
Texas	June 30, 2003[6]
Kansas and Oklahoma	January 22, 2004[7]
Arkansas and Missouri	November 16, 2004[8]

The Commission has ruled that a BOC will be deemed nondominant in the provision of in-region, interLATA, domestic, interstate service only insofar as that service is provided through an affiliate that complies with section 272 and the FCC's implementing rules.[9] Therefore, operations in each of the sunset states will be included in this engagement unless SBC gives notice that it has elected to stop providing in-region, interLATA, domestic, interstate service through an affiliate that complies with section 272 and the FCC's implementing rules in a particular state(s). Without such notice provided to the Federal/State joint audit team prior to the date the independent auditor begins its audit work, all states will be included in the engagement regardless of sunset status.

Sampling

9. Certain audit procedures may require testing on a sample basis. The sample sizes and sampling methodologies to be used in performing such audit procedures shall be determined after the initial survey and/or during the performance of the audit of the section 272 affiliate. Such determinations shall be made jointly by the practitioner and specified parties. During this process, the practitioner shall obtain detailed listings or lists (representing the population of potential items to be tested) for each procedure. For those procedures requiring statistical sampling, the practitioner shall develop detailed statistical parameters that include the total number of items in the universe, the number of items sampled, method of selection. Where the specified parties and practitioner indicate, and when appropriate, the practitioner shall select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95%; a desired upper precision limit equal to 5%; and an expected error rate of 1%. Taking under consideration cost versus benefit to be derived, the Oversight Team shall approve the sampling plan, after consulting with SBC, when reviewing

[6] WC Docket No. 02-112, Section 272 Sunsets for SBC in the State of Texas by Operation of Law on June 30, 2003 Pursuant to Section 272(f)(1); *Public Notice*; Released June 30, 2003.

[7] WC Docket No. 02-112, Section 272 Sunsets for SBC in the States of Kansas and Oklahoma by Operation of Law on January 22, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released January 22, 2004.

[8] WC Docket No. 02-112, Section 272 Sunsets for SBC in the States of Arkansas and Missouri by Operation of Law on November 16, 2004 Pursuant to Section 272(f)(1); *Public Notice*; Released November 17, 2004.

[9] CC Docket No. 96-149, In the Matter of Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area; *Second Report and Order*; Released April 18, 1997. WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

the detailed procedures written by the practitioner and/or during the execution of the procedures.

10. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period. For procedures requiring sampling sizes to be based on information available as of the end of the Audit Test Period, the practitioner will utilize March 31, 2005, as the relevant date, unless otherwise noted. In addition, to the extent that the companies' processes and procedures change between the time of execution of these procedures and the end of the engagement period, the practitioner has an obligation to test these changes to ensure continued compliance with the section 272 requirements.

Definitions

11. *BOC* If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to section 251(c)(3), such entity shall be subject to all of the requirements of the BOC. For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see section 272(g)(1) of the Act), shall be excluded from these requirements.

12. *SBC BOC* For the purposes of this engagement, the term "SBC BOC" shall refer to the SBC operating telephone companies, operating as incumbent local exchange carriers (ILECs), and include the following: Illinois Bell Telephone Company; Indiana Bell Telephone Company, Incorporated; Michigan Bell Telephone Company; Nevada Bell Telephone Company; The Ohio Bell Telephone Company; Pacific Bell Telephone Company; Southwestern Bell Telephone, L.P. ("SWBT"); Wisconsin Bell, Inc.; and any successor or assign of such company as described in ¶11. Although The Southern New England Telephone Company and The Woodbury Telephone Company (collectively referred to as "SNET") are not BOCs as defined by the Act, for purposes of the biennial audit, they will be treated as SBC BOCs with respect to the structural, transactional, and nondiscriminatory requirements of sections 272(b) and 272(e) to the extent they are included in Objectives I through XI.

13. *Affiliate* The term "affiliate" shall refer to a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term "own" means to own an equity interest (or the equivalent thereof) of more than 10 percent. (See section 3 of the Communications Act of 1934, as amended.)

14. *SBC Section 272 Affiliate* The audit procedures are required to be performed,

unless otherwise specified, on all section 272 affiliates as defined by the Act. For the purposes of this engagement, the terms "section 272 affiliate" and "separate affiliate" shall refer to SBC Long Distance, Inc. ("SBCLD"), formerly known as Southwestern Bell Communications Services, Inc., doing business as SBC Long Distance (the corporate name was changed in August, 2004), as well as any other affiliate that originates interLATA telecommunications services in the SBC Communications Inc. region that is subject to section 272 separation requirements, and any affiliate that engages in manufacturing activities as defined in section 273(h). Throughout the procedures which follow, reference is made to the 'section 272 affiliate'. The audit procedures should be performed on all section 272 affiliates, to the extent relevant.

15. *Official Services* Official Services mean those services permitted by the United States District Court for the District of Columbia in United States v. Western Electric Co. Inc. See 569 F. Supp. 1057, 1098, n.179 (1983) (defined as "communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers"), and its progeny.

16. *Obtain* For purposes of this engagement, the term "obtain" as referred to in the procedures contained herein shall mean that the practitioner will physically acquire, and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of a procedure. The practitioner, in its professional judgement, shall decide which items are too voluminous to include in the working papers. The practitioner shall include a narrative description of the size of such items as well as any other reasons for its decision not to include them in the working papers.

Conditions of Engagement

17. The practitioner leading this engagement shall be a licensed CPA. The practitioner's team performing the engagement shall be familiar with the standards established for an agreed-upon procedures engagement, the requirements for the biennial audit, and its objectives. The team performing the engagement shall also be independent as defined in the Statements on Standards for Attestation Engagements (SSAE 10, paragraphs 1.35-1.38) and in compliance with the Sarbanes-Oxley Act of 2002. The practitioner shall disclose in its engagement letter to SBC how the team shall comply with the independence requirements of the Sarbanes-Oxley Act of 2002. All members of the team performing the engagement shall have a sufficient general understanding of the relevant information contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;
- Section 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);
- The relevant orders and rules from the following FCC Dockets:

  a. CC Docket No. 86-111 dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;

b. CC Docket No. 96-149 dealing with the implementation of the non-accounting safeguards of sections 271 and 272 of the Act;

c. CC Docket No. 96-150 dealing with the implementation of the accounting safeguards of sections 271 and 272 of the Act;

d. CC Docket No. 96-98 dealing with the implementation of the local competition provisions of the Act (the interconnection orders);

e. CC Docket No. 96-115 dealing with the use of customer proprietary network information;

f. Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of sections 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

g. Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

- SBC's section 271 application(s) and related FCC approval(s);

- Orders issued by state commissions approving interconnection agreements that are covered in the scope of the engagement;

- Petitions for arbitration with the BOC for those agreements tested within the engagement.

18. In addition, to the extent the practitioner determines procedures included in this plan cannot be performed, the practitioner will propose alternate procedures to the Oversight

Team, as appropriate. The practitioner will inform the Oversight Team if the practitioner determines it is necessary to modify the agreed-upon procedures or the scope of the engagement, in order to provide the specified parties with all of the information needed to determine compliance with the various requirements. The practitioner shall include any additional hours and fees that would result from revisions of the procedures or of the scope of the engagement. After the practitioner informs the Oversight Team of any revisions to the final audit program or to the scope of the audit, the Oversight Team shall inform SBC about these revisions. These revisions will be subject to the procedures described in paragraph 3 above.

19. The practitioner may use the services of a specialist for assistance in highly technical areas. The practitioner and the specified parties shall explicitly agree to the involvement of any specialist to assist in the performance of the engagement. The specialist shall not be affiliated in any form with SBC.

20. The practitioner's use of internal auditors shall be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the procedures contained in this document. All the procedures in this document shall be performed by the practitioner.

21. The practitioner shall not use or rely on any of the procedures performed during any of the SBC BOC/ILEC cost allocation manual (CAM) audits to satisfy any of the requirements in Objectives V/VI.

Representation Letters

22. The practitioner shall obtain three types of representation (assertion) letters. The first type of representation letter shall address all items of an operational nature (see para. 23). The second type of representation letter shall address all items of a financial nature (see para. 24). The third type of representation letter shall state that all section 272 affiliates have been disclosed (see para. 25). The following paragraphs detail the contents of each type of representation letter.

23. The representation letters related to operations issues shall be signed by the Chief Operating Officer or the equivalent of the SBC BOC/ILEC and each section 272 affiliate and shall include the following:

a. acknowledgement of management responsibility for complying with specified requirements;

b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;

c. statement that SBC has performed an internal evaluation of its compliance with the specified requirements;

d. statement that management has disclosed or will disclose to the practitioner all known noncompliance occurring up to the date of the draft report;

e. statement that management has made available all documentation related to compliance with the specified requirements;

f. statement that management has disclosed all written communications from regulatory agencies, internal auditors, external auditors, and other practitioners, and any written formal or informal complaints to regulatory agencies from competitors, concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;

g. statements that each section 272 affiliate operates independently from the SBC BOC/ILEC; no SBC BOC/ILEC owns any facilities jointly with the section 272 affiliate; prior to March 30, 2004, no SBC BOC/ILEC, or other affiliates other than the section 272 affiliate itself, provided any operating, installation, and maintenance functions over the facilities owned by the section 272 affiliate, or leased by the section 272 affiliate from unaffiliated entities; prior to March 30, 2004, no section 272 affiliate provided any operating, installation, and maintenance functions over the BOC/ILEC's facilities; and no SBC BOC/ILEC is providing and did not provide any research and development that is a part of manufacturing on behalf of the section 272 affiliate pursuant to section 272(a);

h. statement that each section 272 affiliate has separate officers, directors, and employees from those of any SBC BOC/ILEC;

i. statement that no SBC BOC discriminated between itself or the section 272 affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards (on the SBC BOC's representation letter only);

j. statement that the SBC BOC/ILEC subject to section 251(c) of the Act has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates (on the SBC BOC representation letter only);

k. statement that the SBC BOC/ILEC subject to section 251(c) of the Act has made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has made available to its section 272 affiliate that operates in the same market (on the SBC BOC/ILEC's representation letter only).

24. The representation letters related to financial issues shall be signed by the Chief Financial Officer or the equivalent of each SBC BOC/ILEC and each section 272 affiliate and shall include the following:

a. statement that each section 272 affiliate maintains separate books, records, and accounts from those of the SBC BOC/ILEC and that such separate books, records, and accounts are maintained in accordance with GAAP;

b. statement that each section 272 affiliate has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the SBC BOC/ILEC;

c. statement that management has identified to the practitioner all assets transferred or sold since the last audit, and services rendered: (i) by the SBC BOC/ILEC to each section 272 affiliate; and (ii) by each section 272 affiliate to the SBC BOC/ILEC; and that these transactions have been accounted for in the required manner;

d. statement that the SBC BOC/ILEC subject to section 251(c) of the Act has charged its section 272 affiliate, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service (on the SBC BOC/ILEC's representation letter only);

e. statement that, if the SBC BOC/ILEC and an affiliate subject to section 251(c) of the Act make available and/or have provided any interLATA facilities or services to its interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated (on the SBC BOC/ILEC's representation letter only);

f. statement that management has not changed any of the SBC BOC/ILEC processes or procedures (as they relate to transactions of any kind with the section 272 affiliate), and that these procedures and processes have continued to be implemented on a consistent basis since the execution of these agreed-upon procedures, without apprising the practitioner before the date of the draft report (on the SBC BOC/ILEC's representation letter only).

25. The representation letter related to the disclosure of all section 272 affiliates shall be signed by the Chief Financial Officer of SBC and shall state that each section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner.

Engagement Process

26. The General Standard Procedures, which were drafted through the cooperative efforts of Federal and State Regulators and various industry groups, are intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible, considering state regulatory and corporate differences. The standards identified throughout this document are not legal interpretations of any rules or regulations. To the extent that these standards conflict with any FCC rules and regulations, the FCC rules and regulations govern. Accordingly, by agreeing to these procedures, neither the FCC nor SBC concede any legal issue or waive any right to raise any legal issue concerning the matters addressed in these procedures.

27. The General Standard Procedures shall be used by SBC as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in section 53.211(a) and (b) of the Commission's rules. Under these rules, SBC shall submit the preliminary audit requirements, including the proposed scope and extent of testing, to the Oversight Team before engaging an independent accounting firm to conduct the biennial audit. The Oversight Team shall then have 30 days to review the preliminary audit requirements to determine whether they are adequate to meet the audit requirements in section 53.209 of the Commission's rules and "determine any modifications that shall be incorporated into the final audit requirements" (section 53.211(b)). The preliminary audit requirements and scope of the audit shall be similar to the General Standard Procedures and shall cover all the areas described in that model. SBC shall not engage any practitioner who has been instrumental during the past two years in designing any of the systems under review in the biennial audit. After SBC has engaged a practitioner to perform the biennial audit, the process for drafting detailed procedures shall proceed as follows:

- The Oversight Team and the practitioner shall perform a joint survey of the section 272 affiliate and the relevant SBC BOC/ILEC. The Oversight Team and the practitioner shall coordinate with SBC to determine the nature, timing and extent of this survey at a mutually agreeable time and location. The survey shall provide the practitioner and the Oversight Team with an overview of the company's structure and policies and procedures such as record keeping processes, the extent of affiliate transactions, and SBC BOC/ILEC procedures for processing orders for services received from affiliates, unaffiliated entities, and its own end-user customers. The survey shall be conducted between four to six months before the end of the period to be covered by this engagement.

- The practitioner shall develop a detailed audit program based on the final audit requirements and submit it for review to the Oversight Team (section 53.211(d)).

- The Oversight Team shall have 30 days to review the detailed procedures for consistency and adequacy of audit coverage and shall provide to the practitioner any modifications that shall be incorporated into the final audit program (section 53.211(d)).

28. Access to all information during the section 272(d) biennial audit shall be restricted to: (a) FCC staff members; (b) state commission staff members where the state commission by statute protects company proprietary data; (c) state commission staff members who have signed a protective agreement with SBC; (d) state commission staff members of any participating state that has confidentiality procedures in effect covering all staff and that requires the Chairman or designee to sign the protective agreement on behalf of the entire commission including commission staff; and (e) state commission staff members who have not signed the protective agreement, but that SBC does not object to provide oral or written information, provided that they do not take possession of such information.

29. The detailed examination of transactions shall begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in section 53.211 and section 53.213 of the Commission's rules.

30. During the conduct of this engagement, and until issuance of the final report to the Commissions, the practitioner shall schedule monthly meetings with the Oversight Team and, at the discretion of the practitioner and the Oversight Team, with SBC to discuss the progress of the engagement. The practitioner shall inform the Oversight Team well in advance, but not less than ten days, of plans to meet with representatives of SBC for the following reasons: to discuss plans and procedures for the engagement; to survey SBC operations; to review SBC procedures for maintaining books, records, and accounts; and to discuss problems encountered during the engagement. It shall not be necessary for the practitioner to inform the Oversight Team of meetings with the client (SBC) to ask for clarification or explanation of certain items, explore what other records exist, or request data. The practitioner shall immediately inform the Oversight Team in writing of any deviation from, or revisions to, the final detailed audit procedures and provide explanations for such actions. The practitioner shall submit to the Chief, Enforcement Bureau, and shall copy the Oversight Team and, at the practitioner's discretion, SBC, any rule interpretation necessary to complete the engagement. The practitioner shall advise the Oversight Team of the need for additional time to complete the engagement in the event that the Oversight Team requests additional procedures (see 31c. below). Finally, the practitioner shall immediately inform the Oversight Team in writing of any delay or failure by SBC to respond to requests for information during the engagement.

Timetables

31. In order to complete the engagement in a timely manner, the following time schedule for completion of certain tasks is provided:

a. Within 60 days after the end of the engagement period, but prior to discussing the findings with SBC, the practitioner shall submit a draft of the report to the Oversight Team for all procedures.

b. The Oversight Team shall have 45 days to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner. The exceptions of the Oversight Team to the findings of the practitioner that remain unresolved shall be included in the final report.

c. If the Oversight Team requests additional procedures, the practitioner shall advise the Oversight Team and SBC of any need for additional time to perform such procedures. Otherwise, within 15 days after receiving the Oversight Team's recommendations and making the appropriate revisions, the practitioner shall submit the report to SBC for its comments on the findings, and to the Oversight Team. At the time the report is provided to SBC, the practitioner may provide SBC with an itemized list of all data and information identified as proprietary or confidential that the practitioner included in the report.

d. Within 30 days after receiving the report, SBC will comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. SBC will also provide the practitioner and the Oversight Team notification of all items contained in the